

Amy Shuen:

How Web 2.0 Can Help Your Business Do More with Less

Amy Shuen is an internationally recognized authority on Silicon Valley business models and innovation economics. She has taught high-tech entrepreneurship, strategy and venture finance at Wharton and Berkeley in the U.S., and is currently Professor of Management Practice at the China Europe International Business School (CEIBS) in Shanghai. Her bestselling book, *Web 2.0: A Strategy Guide*, explains how managers can integrate Web 2.0 practices and transform what they do according to the new business paradigm, which will improve their bottom line.

In May 2009, Shuen visited IESE Barcelona to deliver a seminar on the “upside in the downturn” based on her research of business innovation models in China and the U.S. During her visit, she was interviewed by Sandra Sieber, associate professor and chair of the Department of Information Systems, who has a particular interest in new information and communication technologies and how they are changing workplace practices. To this end, IESE is taking part in a large-scale research project with the Rochester Institute of Technology (U.S.A.), Henley Business School (U.K.) and Cisco, to discover trends and explore how organizations are using social media tools for collaborative innovation.

*Here follows a full transcript of their conversation.**

SANDRA SIEBER: Amy, welcome to IESE. It’s a great pleasure to have you here, since we all know that Web 2.0 is currently a very hot topic. Many people are asking if Web 2.0 might actually help us to get out of the crisis, or at least to boost efficiency, which is something that people want to do during crisis times.

Many people may know Amy from the '90s. In the '90s, when all these things started, I was a Ph.D. student, and I was one of those who read one of your most influential papers on dynamic capabilities [“Dynamic Capabilities and Strategic Management”]. How did you go from dynamic capabilities to what’s going on today in Web 2.0?

AMY SHUEN: Dynamic capabilities was a paper that resonated with a lot of people in the strategy field because it made two important points that, I think, everyone knew, but perhaps needed to be stated more clearly.

The first one is that competitive advantage is about organizational capabilities, not just industry structure, which was the prevailing view among strategy researchers at that time.

The second thing is that capabilities, in and of themselves, are not enough to be competitive in a turbulent, difficult, challenging or crisis environment. In fact, you really need to have *dynamic* capabilities – the ability to orchestrate, not only your own capabilities, but maybe the capabilities of others, in combination, to be able to meet the changing demands of a fickle and volatile world.

Those two things, put together, resonated with a lot of the people in the strategy field as the way to think about competitive advantage.

SIEBER: What you are saying is probably the bridge to Web 2.0, which is also about orchestrating and putting many little pieces together, right?

SHUEN: Exactly. You've pointed out the most important aspects that connect it to Web 2.0. First is this idea of innovation as not only creative destruction and new imaginative things, but also combinations of existing competences, capabilities and companies. That's very important.

The second thing, besides that orchestration, is doing it in real time. Doing it in a way and at a time that meets the demands of the situation. In the past, it might have been very difficult to orchestrate and to pull things together. This is where, of course, Web 2.0 and our new technologies come into place; where you can, in some cases, more easily orchestrate and coordinate, using technologies. You can more quickly interact, you can more quickly experiment. In fact, some of these competences or skills can even be embedded in some ways into software or into hardware, into a digital good or experience, product or service, which then can be transferred and distributed much more quickly, easily and globally.

SIEBER: In this sense, I think your book is very exciting: You provide the different milestones that companies have to follow in order to set up a Web 2.0 strategy. Could you briefly highlight what would be, for you, the essential terms of the Web 2.0 strategy, which you develop at length in your book?

SHUEN: First, let me point out a few of the chapters that make explicit the link between dynamic capabilities and this new ability of orchestration and speedy response in a turbulent environment.

In some of my chapters, I talk about how Amazon was able to proliferate e-commerce by essentially creating many, many partners through its use of electronic storefronts that were available to anyone who wanted to become an affiliate.

Another example might be IBM, which was able to very quickly open up the system of Linux, of finding developers. They estimate maybe 15 million developers are going to appear in India and China on Linux, and make all those new applications and new developments of software available across the world.

So, it's taking something that might, in the past, have been a local capability or a local skill, and making it available elsewhere. I think those might be two examples from my book that give some idea of some of the best practices that companies are using in getting from a more Web 1.0, or traditional way, of looking at strategy, to competing in a more global and interconnected world.

SIEBER: Another of the key concepts in your book has to do with communities. Could you develop that a bit more, so that people understand how companies that want to go Web 2.0 could think about incorporating the notion of communities, collaboration and enhanced interactivity, as you mention in the book?

SHUEN: Before I go through that, I should mention that, as part of these communities, a huge social transformation has taken place. In my book, I point out that, in my mind at least, Web 1.0, or the first generation of the Web, started around 1995. It really became visible to most people because of Netscape going public in 1995. And so, 10 years passed when the Web was mostly a kind of place where you went on line and you downloaded information and material that people or companies had put on

websites. There weren't really that many things on the Web except for ones that had been put there by companies, for example.

Then, suddenly, I guess in 2005, there was a big change. There was what we call a crossover point, because more people were uploading data to the Web than were downloading. As a result, you had a very different situation on the Web. You had people who were now givers, who were active contributors, who were publishers, who were putting their photos, their videos, all their content on the Web for others to benefit from, and not just taking away from the Web.

That kind of social transformation took place in the 2005 timeframe, and that was the date at which I say the start of Web 2.0 really was. This crossover point, when it became an interactive kind of social transformation of the Web, as a place where you shared, you gave and you contributed, improved the network experience and what you could do on line for everybody.

SIEBER: If that's true, then a Web 2.0-enabled strategy is a pretty big jump in terms of the mindset of organizations, right?

SHUEN: Absolutely. This is not only a social transformation, but clearly a very important business and industry transformation is occurring. The very relationship and the way in which businesses need to listen to what their customers, their audiences and their partners are saying has changed dramatically as a result of this.

SIEBER: So, managers and executives need to learn how to manage this thing: Rather than just pushing out their products or services, we have to start receiving suggestions and ideas. We also have to start to give away more information and to give away control, because we are going to get an enhanced conversation, not only with the outside market, but internally.

SHUEN: Absolutely. That dynamic is happening already. I think certain companies are seeing that the enterprise of the 21st century may look very much like the Web 2.0 community, rather than our more traditional view of a hierarchical company with a barrier or distance between the company internally and its partners, its stakeholders and its customers.

SIEBER: A previous speaker that we had some time ago here at IESE actually talked about the changing paradigm, from managers that engineer to managers that cultivate. That is also a nice way of talking about that.

You've done extensive research. Could you share with us some examples of what would be some of the most innovative business models in Web 2.0 that you have seen?

SHUEN: I have a set that I use to explain the different key concepts of Web 2.0 strategy in my book. In Chapter 1, I start by talking about Flickr, the photo-sharing company that was later acquired by Yahoo. Flickr is an example of collective user value. In other words, a place where not only do people share photos, but also find a way to contribute back to the community of photo sharers in some significant way, and contribute back in a way that makes sense for their particular needs and interests.

For example, professional photographers at Flickr can actually get more space and more features because they pay a monthly subscription fee. That's a use of a revenue model that we call *freemium*, free plus premium. Others want to contribute in ways other than money, so certain people just tag or footnote different kinds of photos to make it easier for others to search for them. Still others are more active because they put together groups or events together. And then, amateur photographers might

actually be helping Flickr to stay in business by having their photographs uploaded to the site for Target, so that it can get their photos developed. Each time it goes through that system, a small transaction fee is paid to Flickr, by the sponsor, Target.

So, this particular case just shows that there are multiple streams of revenue that one company can have by being a Web 2.0 company. Plus, it shows that collective user value can be captured and brought back for the benefit of the entire community.

This starts a whole theme that I continue in other chapters, about how Web 2.0 is all about network effects of different kinds, and how companies can capture the value of those network effects and monetize them, rather than always just allowing them to become either externalities or public goods.

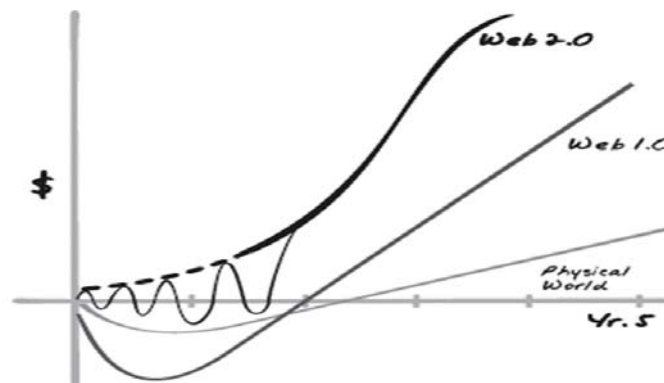
SIEBER: This is precisely the issue: that you translate them to more traditional business propositions. So even companies like the examples that you have on the electricity meters are getting into Web 2.0. That's something I found very interesting.

SHUEN: You've touched on something that is always a difficulty when you're working on something like Web 2.0: My book has been out only for a year, and while the examples I used provide a fundamental look at each of the practices that underlie Web 2.0, in that short amount of time there are even more good examples and more interesting ones [than Flickr] that everybody has since become aware of – like, as you mention, some of the interesting things that Google and GE and the SmartGrids are doing.

Some of the interesting infrastructure projects that are going to happen as a result of Smart Health are certainly Web 2.0 driven initiatives. The use of iPhone in the Obama campaign was quite innovative and gives lots of good ideas on how Web 2.0 and the mobile world are going to come together. And I always bring up in my talks the example that any parent with a kid that's between 6 and 8 years old must know: Webkinz, the stuffed toy company, which has an online component. It's a great example of how even traditional companies, like stuffed toy companies, can participate in the digital economy in quite a significant way.

SIEBER: Managers today are facing huge budget pressures. Could you recommend what to do, Web 2.0-wise, to affront those pressures and to include Web 2.0 to solve some of their current crisis-detected problems?

SHUEN: One of the first things all managers think about during crisis is their cash flow. If managers do a cash flow curve for all their projects, they would see a graph that looks something like this.



This graph compares doing a Web 2.0 oriented project with a more traditional Web 1.0 project. As you can see, the ROI for the cash flow for a Web 2.0 project tends to be much better – in fact, it can be cash positive almost from the beginning.

You might wonder how or why. It's because Web 2.0 allows for early experimentation to try out ideas at very low risk and low capital cost, and therefore, to figure out very quickly – to almost test-market as you go – what kinds of things are going to make sense, and what is actually going to work.

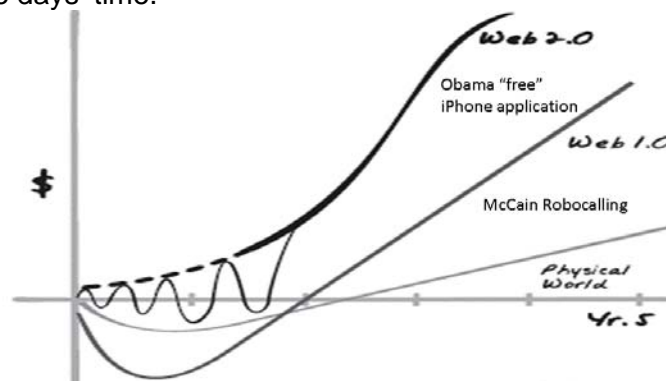
If I were a manager who was wondering how I could innovate in times of cash pressure and budget pressure, I would ask myself: Are there small Web 2.0 kinds of projects or initiatives that I could get started on today and get feedback from at a very low cost outlay?

Indeed, there are many ways to have software as a service; you also have cloud computing, where you only pay for the computing power you use. There are many ways to put things on the Web, to try out a new approach for marketing or social marketing, better ways to reach or engage partners and communities, and to test that project early on, to find out if it works, and go from there.

So, I think one of the first things that a manager who is facing budget pressures but still wants to innovate ought to do is look at some Web 2.0 initiatives.

SIEBER: The American election, when Barack Obama started using Web 2.0 during his campaign, serves as another good source of ideas.

SHUEN: That's a really good example. You can use this same curve and show that the iPhone download that was provided for Barack Obama's campaign was much faster in generating not only downloads, so that people could start using the application quickly by getting it off the Web, but also phone calls – it generated something like 500,000 phone calls in five days' time.



Imagine a marketing campaign where you could get 500,000 new users in a very short amount of time and have them engaged and actually referring your product or your service to others whom they know in their social network. Then you have a very successful social media initiative.

SIEBER: You get a high return by taking advantage of network externalities.

SHUEN: A high return for very little investment. All of this uses the ease of distribution of software on the Web, and how quickly that can be distributed – like viral distribution using Facebook or, in the case of Obama, the iPhone store. How quickly that can grow and be used by others!

What this shows is that it is possible, using Web 2.0 technologies, to be able to do more with less. And in some cases, to be able to take existing networks of customers, of partners, of stakeholders, and multiply the leverage of those networks more effectively, and do so faster. That's really the idea behind Web 2.0: It's this amplifier or multiplier of your current resources and current capabilities and relationships.

Many companies should be thinking about, not only how they can increase their reach in their marketing through Web 2.0, but how they can innovate using their existing customer bases and partnerships, to be able to multiply the value of those networks using Web 2.0.

SIEBER: So rather than what we used to see in the past of outsourcing things, it's about insourcing dynamic capabilities, including them in your current capability set by amplifying it to the outside.

SHUEN: Exactly. In the past, we were only able to do business as value-added. And now, with Web 2.0 technologies and this whole digital channel and network effect, we have to start thinking exponentially. What are all the things we could multiply and get value from, rather than "add value"?

SIEBER: You seem quite optimistic in terms of how Web 2.0 can help us. You see its exponential, multiplying effects, which I think is how our managers need to actually cope with what's happening today. Thank you again for talking with us about Web 2.0 and how we can actually use Web 2.0 to improve our current businesses in these tough times.

** Note: The above text was lightly edited for grammar, flow and accuracy. Please check against actual delivery on video.*